

A PUBLICATION OF THE
DELAWARE DEPARTMENT OF JUSTICE
Attorney General Joseph R. "Beau" Biden, III

The 2009

SAFE

INVESTING

GUIDE



**Delaware
Securities Unit**
(302) 577-8935

www.InvestorResourceCenter.org

Investigate before you invest!

For more on safe investing, visit www.investorresourcecenter.org
the Delaware Department of Justice's Investor Resource Center

Welcome

Now, more than ever, it is important that investors ask the right questions and that they receive full disclosure about financial products from the investment professionals who sell them. Whether you are just beginning to invest or are approaching the time when you will rely on investment earnings for income, your investment choices should be based on accurate information and an informed decision-making process.

Delaware investors have access to ever-expanding investment options. This range of choices also means that you risk being exposed to a variety of fraudulent schemes. While the vast majority of investment professionals have their clients' interests at heart, there are those that would cheat you out of your hard-earned investment dollars. These criminals offer a range of schemes and products, including illegitimate investments, products that promise high returns with little or no risk, or products with hidden fees. The Delaware Department of Justice protects investors by investigating and prosecuting brokers, investment advisors, and investment firms who break Delaware's securities laws.

Education is your key to making smart investment choices and combating the risks to your investor security. In addition to enforcing the law, the Delaware Department of Justice also serves as an educational resource to investors. As a result, we are providing this "Safe Investing Guide", with articles on a wide variety of investor issues and helpful references to additional information. In addition, the Delaware Department of Justice also provides the online Investor Resource Center (www.InvestorResourceCenter.org), a website

that features the information contained in this Guide as well as educational video "webinars" for a range of audiences, including young people and families, middle-aged individuals, and mature investors approaching retirement.

The Safe Investing Guide and the Investor Resource Center were funded by fines and penalties paid by those who have violated the Delaware Securities Act. These funds are used to combat investment fraud through public education and through legal action.

I encourage you to review this Guide and to visit www.InvestorResourceCenter.org. I also urge you to contact the Delaware Department of Justice if you suspect that you have been the victim of securities fraud. Our mission is to help all Delawareans become safe and informed investors.

Sincerely,
Beau Biden
Attorney General



At the time of publication, Attorney General Biden was deployed overseas with the Delaware National Guard. This text is a reprint of his 2008 welcome message.

FREE Live Web Seminar

The Difference: How Anyone Can Prosper in Even The Toughest Times

Tuesday, September 15, 2009: 7:30 pm

Visit www.InvestorResourceCenter.org to Register

The Delaware Department of Justice presents a free live Web Seminar with Jean Chatzky, award-winning journalist, best-selling author and sought-after motivational speaker, who has been working with people and their money for decades. Her experiences have inspired books on topics ranging from money to happiness. In her latest effort, Chatzky provides insights on how to thrive in a tough economic climate.

Join us on September 15, 2009 at 7:30 PM for this free hour-long interactive Web Seminar as Jean shares tips to help you save more money, safely invest the money you save and answers your financial questions.

Jean Chatzky is the financial editor for NBC's *Today*, a contributing editor for *More* magazine, a columnist for *The New York Daily News*, and a contributor to *The Oprah Winfrey Show*.

This program is sponsored by the Securities Unit of the Delaware Department of Justice and is funded solely through fines and fees collected by the Securities Unit.



Jean Chatzky

Personal Financial Expert, financial editor for NBC's *Today* and frequent contributor to *The Oprah Winfrey Show*

Why Are Financial Crimes Rarely Reported?

One of the significant mysteries to state securities regulators and law enforcement officials is why financial crimes are so rarely reported by victims. The failure to report financial crime hampers law enforcement in prosecuting those responsible. In fact, perpetrators often expect to get away with their crimes because of the reluctance of victims to report financial crime. This is particularly true when the fraud is perpetrated by a family member. Here are some of the Myths about reasons not to report financial crime:

Myth No.1:

“It was my fault. The opportunity was too good to be true. I should have known better.”

Answer: This argument is the scam artist’s best friend. They want the investor to blame himself for what happened. But the crime victim is not to blame. The blame falls squarely upon the perpetrator, who intentionally deceived the victim for the purpose of stealing the victim’s hard earned money. Intentional securities fraud is a crime and the victim is entitled to the same rights and benefits as the victim of any other crime. Investment fraud victims come from all walks of life, levels of education, and occupations. Many of the fraudulent schemes are very convincing and the con artists are often experts in gaining an investor’s



trust.

Don’t blame the fraud victim; blame the perpetrator who committed the crime.

Myth No.2:

“The Court system is very time consuming and nothing will probably be done.”

Answer: Nothing will happen if the financial crime is not reported to police and your state securities regulator. State enforcement officials can seek orders for restitution (repayment of the money lost); seek seizure of any assets of the wrongdoer; and/or criminally prosecute the offender and seek a fine and jail sentence, where appropriate. Once again, law enforcement cannot punish the offender or seek return of the crime victim’s money if the crime is never reported.

Myth No.3:

“The offender will just get a slap on the wrist.”

Answer: A conviction for securities fraud of over \$50,000 is a Class E Felony punishable by a fine of not more than \$200,000 and up to five years of incarceration. Most indictments for financial crimes include multiple victims and counts. Our Delaware Judges take financial crime seriously and it is not unusual for them to impose significant jail sentences for those who victimize vulnerable or elderly victims.

Myth No.4:

“I am the only one harmed and its up to me to decide whether to report the incident.”

Answer: From experience, there is rarely a single financial fraud victim. Usually, there are multiple victims of the crime, each with his or her own reason to be reluctant to report it. When the financial crime goes unreported, the perpetrator escapes punishment and is free to move on to new victims. This is how they make their living. By failing to report financial crimes, others will likely be victims of the criminal.

Myth No.5:

“The guy told me he would pay me back next (week/month) and he won’t be able to pay me if I go to the authorities.”

Answer: This is part of the scam. The money is rarely paid by the promised date. Some new excuse for the nonpayment will be given when the date for payment arrives. The fraud perpetrator does not want you to report the crime and this is one way to achieve that goal.

For the protection of investment fraud victims and for future potential victims, it is crucial to report instances of known or suspected investment crimes. To report investment frauds and crimes, call the Department of Justice securities fraud hotline at (302) 577-8935.

The Securities Unit of the Delaware Department of Justice is tasked with enforcing the Delaware Securities Act. The Securities Unit handles all manner of investor complaints, such as those regarding brokers or investment advisors, brokerage firms or investment advisory firms, or specific investment vehicles.

The Securities Unit can also provide you with useful background information to help you evaluate a financial professional or investment opportunity.

Never be too embarrassed to make a securities complaint or request information. While many financial professionals have their clients’ interests at heart, a very

small number of brokers count on investors with complaints to remain silent. Remember, requesting additional information may help you avoid becoming a victim and making a complaint may help you and help prevent misconduct from happening to others.

If you have a need for additional background information on a financial professional or a financial product, or you wish to make a complaint, please contact the Securities Unit at (302) 577-8935.

Top Investor Traps

Each year the North American Securities Administrator's Association (NASAA) issues a list of Top Investor Traps following a survey of its membership. This list informs investors of potentially risky investments that, in the opinion of NASAA and the Delaware Securities Unit, should be avoided.

TOP INVESTOR TRAPS

While the traps below are listed alphabetically, NASAA identified real estate investment schemes, leveraged ETFs, private placement offerings, natural resources investments and high-yield Ponzi schemes as the greatest potential threats to investors this year.

Entertainment Investments. These unregistered investments, encompassing a variety of products including movies, infomercials, internet gambling and book and art promotions, promise high returns while offering little disclosure of risk.

Gold Bullion and Currency Scams. With the high price of gold, investors should beware of gold bullion scams in which the seller offers to retain "purchased" gold in a "secure vault" and promises to sell the gold for the investor as it gains in value. In many instances the gold does not exist. Similar risky investments include the many forms of foreign exchange (forex) trading schemes. Trading in foreign currencies requires resources and information far beyond the capacity of most individual investors. Promoters profit by charging high commissions or selling investment strategies assuming that trades are actually made. In many instances there are no trades; the money is simply stolen.

Leveraged Exchange-Traded Funds (ETFs). This relatively new financial product has been offered aggressively to individual investors who may not be aware of the risks these funds carry. The funds, which trade throughout the day like a stock, use exotic financial instruments, including options and other derivatives and promise the potential to provide greater returns as the underlying assets fall or rise in value. Given their

volatility, these funds typically are not suitable for most retail investors, and may result in extraordinary losses.

Life Settlements.

State securities regulators long have been concerned about life settlements, or viaticals, and the rising popularity of these products among investors has prompted a recent congressional investigation. While life settlement transactions have helped some people obtain funds needed for medical expenses and other purposes, those benefits come at a high price for investors, particularly senior citizens. Wide-ranging fraudulent practices in the life settlement market include Ponzi schemes; fraudulent life expectancy evaluations; inadequate premium reserves that increase investor costs; and false promises of large profits with minimal risk.

Ponzi schemes. Despite the heightened awareness of Ponzi schemes following Bernard Madoff's multi-billion dollar fraud and 150-year prison sentence, these scams continue to trap investors. The Ponzi scheme is a house-of-cards swindle in which high returns are paid to initial investors out of the funds of later investors, who end up losing all

or most of their money to the promoter. The Delaware Securities Unit urges investors to beware of investment opportunities promising high and steady rates of return with no risk or low risk. While some Ponzi investors may have a slight chance of realizing a return on their investment, most investors have no hope of recovery. Ponzi schemes are the securities world's equivalent of a purse snatch.

Real Estate Investment Schemes.

NASAA members have noted a rise in scams disguised as offers to help homeowners caught up in the turbulent housing market "save" their homes or "fix" their mortgages, usually in exchange for a fee paid in advance. Most of these advance-fee offers only generate a quick profit for the con-artist and provide no benefit to the consumer. Some homeowners, particularly seniors, may be attracted to reverse mortgages, which are a legitimate lending option. However, the resulting lump sum home equity payment makes them an attractive target for unscrupulous salesmen, who may attempt to direct these funds toward worthless or unsuitable investment products.

Natural Resource Investments. NASAA expects to continue see a rise in energy and precious metals scams promising safe, quick and high returns. Investors anxious to recover recent investment losses, likely will be hooked by oil and gas schemes as well as fraudulent offerings of investments tied to natural gas, wind and solar energy, and the development of new energy-efficient technologies.

Private Placement Offerings. Private placements offer businesses the opportunity to raise capital by selling securities to a rela-

tively small number of investors as opposed to a public offering made through national securities markets. State securities regulators have observed a steady and significant rise in the number of private placement offerings that are later discovered to be fraudulent, especially those made under a federal registration exemption (Regulation D, Rule 506). Companies using this exemption can raise an unlimited amount of money without registering the offering with the SEC as long as they meet certain standards. Although properly used by many legitimate issuers, the exemption has become an attractive option for con artists, as well as individuals barred from the securities industry and others bent on stealing millions of dollars from investors through false and misleading representations. These investments are not suitable for the average investor.

Short-term Commercial Promissory Notes.

Many seniors have lost their life savings by investing in short-term commercial promissory notes that are nine months or less in duration. These notes are touted as being "insured" or "guaranteed," but the insurance companies may be located outside of the United States, are not licensed to do business in the United States, and lack the resources necessary to deliver on the promised guarantees. Unlike publicly advertised promissory notes, promoters of these notes usually attempt to use commercial paper exemptions as a basis for selling the products without registration. The commercial paper exemptions apply only to high-grade commercial paper traded by major corporations – not to these risky notes pushed to the public by a sales force paid with extremely high commissions.

Speculative Inventions and New Products.

New products are for venture capitalists who know how to assess the risks. They are not good investments for your retirement money even though they may promise high returns.

"NASAA is the oldest international organization devoted to investor protection. Its membership consists of securities administrators in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada and Mexico. The Delaware Department of Justice Securities Unit is an active NASAA member."



How to recognize and avoid Ponzi Schemes

Ponzi schemes have been in the news recently because of Bernard Madoff who pled guilty to conning thousands of investors over many years. The total loss to investors has been estimated at 50 billion dollars. The fact that Madoff could keep the swindle going for so long, and take so much investors' money is truly mind boggling. Unfortunately, without reports to state securities regulators and law enforcement agents, detection of an ongoing Ponzi is often difficult and they are usually discovered when the Ponzi operation runs out of money to continue to pay the investors and an angry defrauded investor ultimately reports the crime.

WHAT IS A PONZI SCHEME?

The "Ponzi Scheme", named after the 1920's swindler Charles Ponzi, is a scheme where earlier investors are paid with funds given by subsequent investors. In a Ponzi scheme, representations of underlying investments are bogus. Very few, if any, actual physical assets or financial investments exist. As the number of the total investors grow and the supply of potential new investors dwindles, there is not enough money to pay promised returns and cover investors who try to cash out. The Ponzi scheme usually ends when the con artist simply cannot keep up with the required payments. In many cases, the perpetrator has spent investment money on personal expenses, depleting funds and accelerating the ultimate end of the scheme.

WAYS TO PROTECT YOURSELF AGAINST PONZI SCHEMES

Background Check. Ask your state securities regulator to do a background check of your investment advisor's or broker's history. Make sure that the person selling

or offering the investment is properly registered with state or federal securities agencies. If the person is registered, you can check with your state securities regulator to see whether the person has a disciplinary history or has received customer complaints.

Beware of promises of excessive rates of return.

Almost every Ponzi scheme, viewed with 20-20 hindsight offers returns that are just too good to be true. Rates of return far above commercially available rates from legitimate sources are suspect. Also suspect are promises of low risk high returns over long periods of time irrespective of good or bad economic conditions. If it sounds too good to be true, it almost always is.

Understand the investment offered.

Be an informed investor. Ask questions about the investment and expect clear and understandable answers. If you don't understand the investment, or the seller can't or won't explain the investment or answer questions, avoid it.

Ask about auditors and ask for au-

dated financial records. One aspect of the Madoff Ponzi was that the multi-billion investment operation was audited by a small relatively unknown firm. This should have been a potential red flag for prospective investors. While many knowledgeable persons invested with Madoff, others who did a more thorough investigation avoided his advice.

Diversification:

Some investors of Bernard Madoff had all their money invested with him. When the fraud was exposed, these investors lost everything except Securities Investor Protections Corporation (SIPC) payments and/or money that the receiver eventually recovers. It is unwise to have all your assets tied up in one type of asset, or placement of all your assets with one manager. Where possible,

it is always safer to diversify.

Secretive clubs: Beware of investments where the promoter cannot, or will not disclose how profits will be generated. Some Ponzi operators require that investors can invest only by invitation. Sometimes entry into the investment opportunity is like entry to an exclusive club. These efforts are often used to keep law enforcement officials from discovering the fraud.

Custody of funds: One aspect of the Madoff Ponzi was that Madoff was the advisor and also was custodian of the funds. While custody of funds by an investment advisor is not an indication of a Ponzi scheme, a third party custodian holding the funds, such as a discount broker, may offer a layer of additional protection.

Contact your State Regulator and report fraud

REPORT SECURITIES & INVESTMENT FRAUD

Contact the Delaware Department of Justice
Securities Unit at (302) 577-8935.

A Sad Story

It was late in the day, and Arthur knew it was probably time to get up from the bench and return to his room in the nursing home. Although it was the middle of summer, the setting sun had stirred up a chilly breeze, and he thought to himself, “Sitting here and moping about it isn’t gong to help matters.” He had been sitting on the bench for what seemed like hours trying to figure out what had gone wrong. “How could I have been so stupid,” he thought. “Everything I’ve worked for all my life, and now it’s gone,” he muttered to himself.

Arthur was ninety-one years old. He grew up in Delaware in a small working-class neighborhood outside of New Castle. He turned eighteen at the height of World War II, and served with distinction with the Army’s 82nd Airborne Division in Europe. When the war ended, he returned to Delaware and took a job as an electrician. In the summer of 1948, he met Peggy, the love of his life. She was working behind the soda counter at a local pharmacy in New Castle, where Arthur consumed an inordinate amount of soda that summer. After three years of going steady, he proposed, and she accepted. They were married in the spring of 1952. They bought a home north of Wilmington, filled it with children, and watched them grow. Before he knew it, they were gone and starting their own families. Arthur and Peggy didn’t like the feeling of an empty nest, but they kept themselves busy. He continued working as an electrician, and she filled her time with volunteer activities and helping out with the grandchildren.

Over the next several years, Arthur did well in his job and was able to build a respectable nest egg. At 75, he retired. At 85, after ten years of a fairly comfortable lifestyle in retirement (a trip or two out West and summers at a small vacation home in Bethany), Arthur’s health began to fail. His children gently suggested to Arthur that it might be time to sell the homes and move into a nursing home. Peggy, who had become weary of maintaining a home and a vacation home, was less gentle. She insisted that it was time to sell the homes and make the move. After two years of stubborn resistance, Arthur finally relented and agreed—it was time to move. They sold their home and vacation home, dispossessed themselves of most of their worldly possessions and moved into a nursing home not far from where Arthur and Peggy had raised their family.

Sitting in his apartment at the nursing home one afternoon, Arthur received a telephone call. The voice on

the other end was unfamiliar to him. He identified himself as Bill something-or-other, and he was calling from a financial firm in New York that Arthur had never heard of. “Do you invest in stocks, Arthur?” the man asked. “I do,” Arthur replied. “In fact, I have a substantial amount of money, around \$125,000.00, invested through a broker here in Delaware,” he continued. “That’s good,” the man replied. “It sounds like you’re smart when it comes to your money.” The man then spent the next half-hour describing to Arthur a number of stocks that he could sell Arthur and suggested that Arthur transfer his holdings to an account with him. The companies all sounded like good (and safe) prospects. They were, according to the man on the phone, “sure things.” He told Arthur, however, that he had to act quickly if he was interested in jumping in. Arthur hesitated. The \$125,000.00 was his and Peggy’s entire nest egg, and he didn’t want to take a chance with it. But, the man on the phone sounded trustworthy, and his firm had an impressive sounding name. Also, Arthur had been growing unhappy with his current broker. He always seemed to be too busy to talk to Arthur, and Arthur would almost always have to talk to his assistant. He decided he would do it. He would switch his investments. He called his broker and instructed him to liquidate his account. He then sent the entire amount to the new guy in New York and asked him to invest it in the stocks he described during their phone conversation.

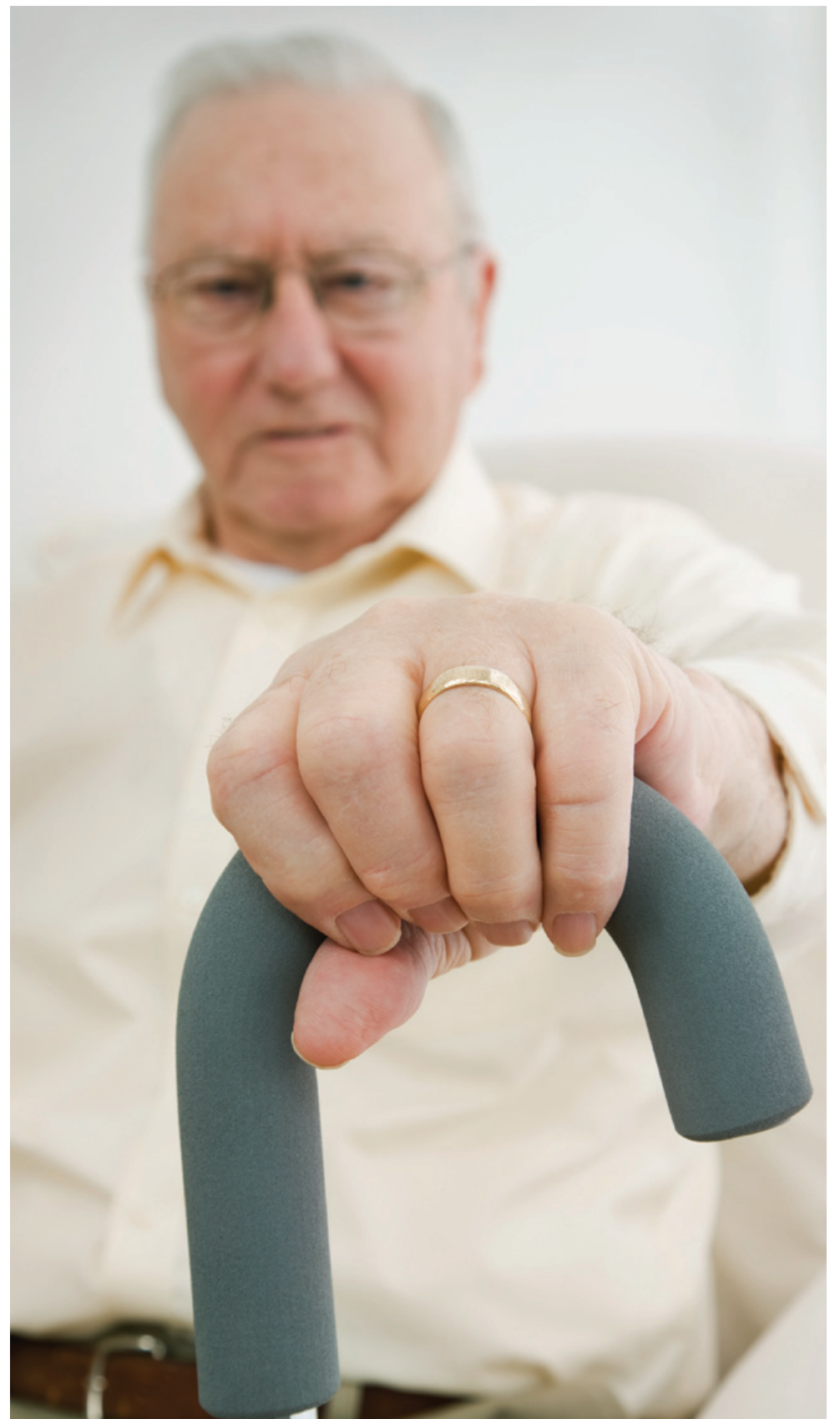
Over the next six months, Arthur’s new investment account steadily lost value. After receiving each monthly account statement, Arthur would contact the broker in New York and complain about the account’s loss in value. The broker’s response was the same every time: “Just hang in there, Arthur. Your account will come back. The stock market has its ups and downs. It’s down right now, but it will come back up, and you’ll be fine.” At the end of six months, however, Arthur had had enough. The account had lost over 75% of its value, and he couldn’t take it anymore. He contacted the broker and insisted that he liquidate all of his holdings and return to him whatever remained in the account.

The day that Arthur received the check for the remaining funds in his account was one of the saddest days of his life. In only six months, he had seen his and his wife’s nest egg go from \$125,000.00 to \$30,000.00. With a heavy heart he walked out to sit at his favorite bench in the park by the nursing home. After several hours, as the sun was setting, he decided it was

time to go home and tell Peggy the bad news. Not wanting to burden her, he had kept it from her as long as he could. As he was walking back home, he happened to come across a good friend. As they talked, Arthur couldn’t help but talk about his bad news. There was, of course, little the friend could do other than listen and sympathize. But, one thing his friend said did pique Arthur’s interest. His friend

said he should call the State Attorney General’s office and see if they could help. It sounded like he had been conned, and the Attorney General’s office might be able to look into the matter for him. “I think I’ll do that,” Arthur said, as he went on his way, feeling a small bit of relief that maybe there was something he could do.

The preceding story is fictional, but it is a representative example of the kinds of scams that are reported to the Securities Unit of the Delaware Department of Justice.



Job Dislocation

TAKE CHARGE OF YOUR FINANCES AFTER YOUR COMPANY ANNOUNCES A PLANT CLOSING OR LAYOFFS

Whatever the reason for your job dislocation, you now face a period when handling your finances correctly will be critical to you and your family. These tips can help you take charge of your financial situation:

Act Quickly to Reduce Spending:

With less money coming in, you should take immediate action to reduce spending wherever possible. Resist the temptation to buy on credit.

Assess Your Short-Term Situation:

Figure out how much cash you have readily available or can get on short notice, how much you owe—mortgage, rent, credit cards, car loans—and the monthly payments associated with those and other debts. Establish how long you can make ends meet on the financial resources that you already have in hand.

Ask About Dislocated Worker Services:

Your employer may work with state and local officials to provide

services such as job placement, retraining or resume writing. Maximize your opportunity to get a new position as quickly as possible by taking advantage of these services—make finding a new job your full-time job. If you belong to a labor union, also ask your union what it can do to assist you.

Inquire About Unemployment Insurance:

A representative of the state's unemployment insurance office will likely be at your workplace to offer guidance and assistance in filling out the necessary applications. Ask the representative if you qualify and find out how the insurance may be affected if you get other payments from the company. Knowing how much you can claim and how long you can expect to receive unemployment benefits will help you handle your finances.

Avoid Taking Out Loans Against Your 401(k):

Loans put a drag on your retirement savings by reducing the amounts invested on your behalf. In the event of a layoff, 401(k) rules generally require that employees



pay back loans within 90 days of leaving or face both income taxes and a hefty 10 percent penalty tax on the withdrawal.

Take Advantage of Health Flexible Spending Accounts (FSA):

If you have enrolled for a Health FSA and the coverage period has begun, consider spending the money while still employed for health items you'll need when unemployed. IRS rules allow you to withdraw the full amount you elected to contribute at any time during the coverage period. Check with the IRS for a list of medical expenses that qualify for tax-free

use of your flex funds. You will need to document your expenses and confirm that they have not been paid or reimbursed under any other health plan.

Get Financial Advice:

Your company or union may offer guidance regarding the financial decisions you face. Your state or local employment agencies may also provide information. Ask questions as early as possible to help determine what is right for you. Consider working with a credit counselor or investment professional. They can help you develop a plan to see you through your unemployment period and beyond.

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401(k) Hardship Withdrawals

UNDERSTAND THE TAX BITE AND LONG-TERM CONSEQUENCES

Under certain circumstances, it may be possible to access your 401(k) funds before retirement. Check with your employer for the specifics of your plan. A hardship withdrawal should be a choice of last resort. You will never get the full amount that you withdraw because you will have to pay taxes.

Generally, hardship withdrawals are:

available if your employer's plan permits them, but are not required by law; not loans—they cannot be repaid; subject to regular taxes—your

employer will likely deduct 20 percent up front; subject to a 10 percent penalty tax if you are not 59½ or older; available only after you have withdrawn all other available 401(k) funds; not available after you have been terminated.

You may use hardship withdrawals to:

purchase or repair a primary home; pay education tuition, room and board, and fees for the next 12 months for you, your spouse, children and other dependents; prevent eviction or foreclosure on your primary residence; address severe fi-

nancial hardship; pay for unreimbursed medical expenses for you, your spouse, children and other dependents; pay for funeral expenses for immediate family members—parents, spouse, children, and other dependents.

The 10 percent penalty tax is waived if your hardship withdrawal results from:

your total and permanent disability; medical bills that exceed 7.5 percent of your adjusted gross income; a court order to pay funds to a spouse, child or dependent; permanent lay

off, termination, quitting or early retirement in the same year you turn 55; permanent lay off, termination, quitting or retirement accompanied by payments for the rest of your (or your designated beneficiaries') life or life expectancy that continue for at least five years or until you reach age 59½, whichever is longer.

Hardship withdrawals are costly in the short term when you pay taxes. Over the long term, they also cost you when the withdrawn funds are not there to grow with the help of compounding.

Job Dislocation

(Continued from page 6)

UNDERSTAND YOUR COMPANY'S BENEFITS

The most obvious benefit you get from your company is the regular paycheck that you count on for doing your job. Another benefit that you probably use frequently is your health insurance. Other company benefits, such as a 401(k) or pension plan, help you build retirement security over time. Your employer may offer a variety of retirement benefits, and it is up to you to take the initiative to understand them. This is particularly important as you face a period of job dislocation. Do not be shy about asking questions. We tell you what to ask below after this brief description of commonly offered plans:

PENSION PLANS:

These plans usually provide a series of payments, also called a defined benefit, after you retire. The amount you receive is normally calculated based on a combination of salary, age and years of service. Pension plans that replace a good chunk of your before-retirement salary are becoming rare. Employees who leave a job before a certain

age or specified years of service with the company may not receive anything. This may happen when they have not met the eligibility requirements to become entitled, or vested, in the plan benefits.

401(K) PLANS:

These plans are referred to as defined contribution plans because they allow you to contribute a portion of your salary to retirement savings, and receive certain tax benefits. When you participate, the taxable salary that your employer reports to the Internal Revenue Service (IRS) is reduced by the amount of that contribution. Income taxes on that money and any earnings are deferred, or postponed, until you withdraw from your account. Generally, if you withdraw before age 59½, you will pay a tax penalty. Some companies also offer a Roth feature to the 401(k) plan that allows you to contribute after-tax dollars—known as designated Roth contributions. You pay taxes on designated Roth contributions up front, but their earnings grow tax free. Earnings on the Roth contributions may be withdrawn after age 59½ so long as the withdrawal is made five years after the initial Roth contribution. The

maximum amount you can contribute to a 401(k) is set annually by the IRS. For 2009, the maximum contribution is \$16,500. If you are 50 or older, you can add another \$5,500 in “catch up” contributions for a pre-tax total of \$22,000. If your company allows you to make both pre-tax and designated Roth contributions, you may determine how much you want to contribute to each. You must, however, count both contributions towards the annual limit.

A 401(k) plan may give you several investment choices. The company may also match some or all of your contributions on a pre-tax basis. You will owe tax on any pre-tax contributions and their earnings when you withdraw funds from the plan. The money that you have contributed to the 401(k) plan will not be affected by events impacting your employer because you are always entitled to or vested in your own contributions. Your employer will decide how long you must work before you vest in the matching contributions. You may move (rollover) your 401(k) savings when you leave an employer allowing continued deferral of the taxable portion of your account.

CASH BALANCE PLANS:

These plans provide for a benefit that is stated in terms of an account balance. Each employee has an account to which the employer contributes a specified dollar amount every year. The funds in the account earn interest at a guaranteed rate that is independent of the actual investment performance of the plan. Generally, you can take an annuity or a lump sum.

EMPLOYEE PROFIT-SHARING PLANS:

The company contributes a certain amount of its annual profits to participating employees. Each worker's account is credited with its share of the contributed profits. The amount contributed often ebbs and flows with a company's financial performance.

EMPLOYEE STOCK BONUS PLANS:

The company contributes a certain number of shares of its own stock to its employees. As with profit sharing plans, the amount of shares received tends to fluctuate according to the company's financial performance.

ASK THESE QUESTIONS ABOUT YOUR EMPLOYER'S BENEFIT PLANS:

1 What are the terms of the plans that cover me?

Ask for the summary plan description (SPD), the document that contains a complete description of the benefits owed to you and how they are calculated. Your company's human resources department, the plan trustee or administrator, or your labor union should have a copy of this document.

2 When do I vest and how much is my benefit?

The plan administrator or the company's human resources department should tell you exactly how long you must work before you become entitled to, or vest in, your benefits and how much those benefits will be. Understand how the benefit is calculated so you can double check that the amount reported to you is correct. Also check previous benefit statements that you have received along the way to ensure that the calculation is correct.

Keep in mind that you are always vested in the amounts that you have contributed to a plan. Your employer, however, may require employees to work for a designated period to vest in the amounts contributed by the company.

3 When can I start getting payments?

You need to know when you can start receiving your benefits so you can plan accordingly. It is possible that you may not have a right to receive payments as quickly as you would expect even if you retire under normal circumstances. Some plans may provide for an early retirement option under certain circumstances if you have met the length of service requirement even if you do not meet the age requirement. This option usually results in a reduced benefit to the employee. Before you opt for payments, make sure that you understand what level of benefit—full or reduced—you are getting, the reason causing a benefit reduction and how long you have to wait to get the full benefit provided by the plan.

Sandwich Generation

A new generation of adults who are responsible for their own financial needs as well as those of their children and elderly family members is emerging. Known as the “Sandwich Generation,” these individuals often face unique financial challenges as they attempt to balance their own financial needs with those of their children and elderly family members. If you are a member of the sandwich generation, here are a few hints to help you develop positive financial habits and suggestions on how to discuss financial issues with your children and older family members.

1. KIDS

Checklist

- Teach your children about basic financial concepts and be a model of responsible money management.
- Consider the impact of using your retirement assets for your children’s education.
- Decide if you are going to pay for your children’s education: talk to your children about exploring education financing options.
- Set financial ground rules and expectations when adult children move back home.

2. YOU

Checklist

- Organize your financial records including brokerage statements, bank records and insurance documents.
- Start retirement planning early. Review your investments in relation to your financial goals and risk tolerance.
- Inquire whether your broker or financial adviser is registered to sell investments or provide advice.
- Create a realistic budget and control your debt.

3. PARENTS

As a sandwich generation member, you may be responsible for elderly family members. Con artists frequently target the elderly because of their age and accumulated wealth. Communicating with and educating elderly family members may enable them to identify and avoid investment fraud. Here are

some tips you may want to share with elderly family members to help them avoid falling victim to financial fraud.

Tips

- Do not disclose financial or personal information until you are confident of the legitimacy of the person and the security of your information.
- Never meet a salesperson alone in your home.
- Do not rush to fill out anything and be sure to understand the terms before signing. **NEVER SIGN A BLANK DOCUMENT.**
- Be wary of anything that requires immediate attention. Turn down any investment when the salesperson says you must act now. It is far better to verify the company than to make an uninformed decision.
- Be wary of any salesperson that promises to “take care of everything for you.” Ask questions and get a second opinion. You may wish to consult an attorney, stockbroker, or financial adviser about the terms of the investment before committing.
- When in doubt, just say no. Salespersons can take advantage of the courteous person who is afraid to say they are not interested.
- If you are not interested in the investment opportunity that is being presented, end the conversation immediately. This is especially true if the opportunity was unsolicited. The longer you remain engaged in conversation, the more susceptible you are to being convinced to participate.
- Check registration: Make sure the salespeople and firms you invest with are properly



registered with the Securities Unit.

- Report fraud: If you have been the victim of fraud, do not let embarrassment stop you from reporting the opportunity. If you have any doubts about an investment, call the Securities Unit at (302) 577-8935 immediately. Protect yourself and help protect others.

Red Flags

- Guaranteed High Returns: Sales pitch – “No Risk”
- Insider Tips: Sales pitch – “Get In Now”
- Offshore Investment Opportunities: Sales pitch – “Tax Free”
- Sophisticated Trading Strategies: Sales pitch - “Profit like the Experts”

- Great Investment Opportunity: Sales pitch – “your friends can’t be wrong”

Checklist

- Initiate a dialogue about financial matters with your elderly parents.
- With their permission, have copies of their estate planning documents and make sure all forms are current.
- Know the location of their assets (insurance documents, retirement plans, and other investments) and ensure you can access them if required.
- Know your parents’ advisers and find out about their other sources of information (e.g. accountants, doctors, financial planners).

Some of the content in this article was provided courtesy of the North American Securities Administrators Association (NASAA).

IRA Approved Investment? No Such Thing!

Investment scamsters have come up with yet another fraudulent scheme to separate you from your money. It's referred to as the "IRA Approved" investment scam. An "IRA Approved" investment scam is any investment offering that includes a representation by the person making the offer that the IRS has given its approval for the particular investment to be included as part of an IRA account. There is, however, no such thing as an "IRA Approved" investment. The IRS does not review and pass upon the question of whether any particular investment offering may be deposited into an IRA account.

The Delaware Securities Unit urges you to take the following steps in order to avoid falling victim to an “IRA Approved” investment scam:

■ Exercise extra caution during the tax season when it comes to making IRA investments.

Just because the pressure may be on to make a decision about your IRA or other retirement plan contribution, don't make the mistake of going along with the first sales pitch you hear. Take the time to evaluate the investment opportunity and, if necessary, consult with a competent tax advisor.

Income *depends on*

Attach Copy B of your Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.

If you did not

■ **Avoid any investment touted as “IRA Approved” or otherwise endorsed by the IRS.** This is a clear sign of trouble. Those who promote legitimate investment opportunities do not pretend

to have the blessing of the IRS. The IRS does not endorse specific tax deals.

■ **Don't buy an investment on the basis of a television "infomercial" or radio advertisement.** Just because an ad for an investment airs on television or radio does not mean that it has

dorsement.

■ **Beware of promises of no-risk, sky-high returns on exotic investments for your retirement account.** It is true that the promised returns of some high-tech investment deals far outstrip those that are projected for stocks, bonds, and other more mainstream

have a found a deal that is too good
to be true!

■ Never transfer or rollover your IRA or other retirement funds directly to an investment promoter. Your fund has to go to a pension fund administrator, such as a bank, trust department or mutual fund. If your money is sent directly to the promoter, it is not going into a recognized IRA and, even worse, may be gone for good.

■ Don't be swayed by the fact that a bank or trust department is serving as an IRA custodian. IRA custodians have to follow many IRS rules in handling retirement funds, but are not obligated to check out the investments to which savers direct funds. The custodian is not “on the hook” if your IRA investment turns out to be a worthless scheme.

■ Educate yourself about IRAs and retirement planning. The IRS offers "Individual Retirement Arrangements" at no cost to those who call 1-800-TAX-FORM (829-3676). Another good reference is "For Your Retirement," a directory brochure from the Association of Retired (AARP) Worker Equity. Write: "Planning for Retirement," AARP, 601 E Washington DC 20049.



been “cleared” or otherwise reviewed by some federal or state agency. And don’t assume that a radio or television station has done anything to check out the claims made by the advertisers; most broadcasters take no responsibility for the accuracy of the ads they air. The same is true for many investment-related radio talk show hosts, many of whom do not check out advertisers and may receive a payment for their personal en-

investments. But it is a basic rule of investing that a higher return means higher risk. If someone tells you that you can make 200 or 300 percent on your money in a few years and that the chance of loss is low or nonexistent . . . you

“Planning for Your Retirement,” an introductory brochure from the American Association of Retired Persons (AARP) Worker Equity Program. Write: “Planning for Your Retirement,” AARP, 601 E Street NW, Washington DC 20049.

This article is re-printed, in large part, from the web site of the North American Securities Administrators Association at www.nasaa.org.

Investing on Margin — What You Need to Know

A margin account is one in which a customer can purchase securities on credit extended by his or her brokerage firm. Margin accounts allow investors to buy a lot of shares with a relatively small amount of cash up front by using the assets currently held in their accounts as collateral for the margin loan. While margin is generally used to increase purchasing power through the use of leverage, that increased leverage also results in the potential for greater losses when the value of the securities purchased declines. Below is a brief overview of investing on margin, an explanation of some of the risks of investing on

margin, and a hypothetical example of a margin transaction.

Margin Quick Facts:

- Investing on margin involves borrowing money from your brokerage to purchase securities.

- Your brokerage firm will charge you interest on money you borrow to purchase securities on margin.

- Securities in your account will be held as collateral for a margin loan.

- Your brokerage will establish margin maintenance requirements describing the

minimum equity levels a customer must maintain in his or her account in order to avoid a margin call.

- Failure to maintain sufficient equity in your margin account may result in your brokerage liquidating your securities holdings so they can obtain payment to satisfy a margin loan.

Risks Associated with Margin Trading:

- You can lose more than you deposit in your margin account.

- Your securities can be liquidated by your brokerage firm without notice.

- You are not entitled to choose which securities are liquidated in the event of a partial margin call.

- You are not entitled to a time extension to cover a margin call.

- The interest rate charged by your brokerage is subject to immediate change.

PLEASE NOTE — the Delaware Department of Justice does not recommend investing on margin for the average investor.

There are significant risks associated with investing on margin. Not only can you lose your initial account deposit, you may end up owing your brokerage account money if you make a losing investment on margin. Margin trading should not be done without a clear understanding of the significant risks of potential loss associated with this type of trading.

If you have questions about margin accounts or would like further information, please contact the **Delaware Department of Justice Securities Unit** at **(302) 577-8935**.



Margin Transaction Example:

Investor wants to buy 100 shares of Company A on margin. If Company A is trading at \$100 a share, the investor must provide \$10,000 (100 shares x \$100 per share). The investor's broker requires that he or she maintain 50 percent equity of the purchase price in a margin account, so the investor deposits \$5,000 cash into the account; the broker then loans the remaining \$5,000. The investor's equity is \$5,000 and his or her debit balance is \$5,000, plus interest.

At the close of the day the investor opened the margin account, the share price of Company A has gone up to \$120 per share. The market value of the account is now \$12,000 (100 shares x \$120 per share). The investor's equity is now \$6,998.75 — \$12,000 minus \$5,001.25 (representing the debit balance plus annualized interest of 9%) — that's nearly \$1,000 more than the investor would have made without

the \$5,000 margin loan from the broker.

Of course, stock prices fall as well as rise and that's where margin accounts can result in investment losses. Suppose at the close of the day the investor opened the margin account Company A stock drops to \$80 a share? The market value of the account is now only \$8,000 (100 shares x \$80 per share). The debit balance remains \$5,001.25, but the investor's equity has fallen to \$2,998.75 — about \$2,000.00 less than the originally required 50 percent.

When an investor's margin account falls below the 50% required equity threshold, a "margin call" can be triggered in order to bring the investor's equity balance back to the minimum amount. In a "margin call" a broker can request additional funds or securities from the investor and the stock the investor bought on margin, or any other stock in an investor's account, can then be liquidated.

Don't Be Suckered Out of Your Money

P.T. Barnum, the great showman of the 19th century, is rumored to have said that “There’s a sucker born every minute.” “Sucker” is a harsh word, and it’s a word that most people would rather not use to describe themselves. But, with a world full of con men waiting to take advantage of their fellow man, P.T. Barnum’s famous words should be heeded as a warning: Don’t let yourself be suckered, especially when it comes to how you invest your hard-earned money.

The investment business is probably the most heavily regulated business in the world. In the United States, it’s regulated at the federal level by the U.S. Securities and Exchange Commission, the Commodity Futures Trading Commission, and Municipal Securities Rule-making Board, just to name a few. At the state level, every state in the country has a state agency charged with the regulation of the sale of investments within the state. There are also non-governmental organizations—such as the Financial Services Regulatory Authority and the New York Stock Exchange—that regulate the activities of investment professionals. There are literally thousands of pages of rules and regulations that govern the activities of persons who issue and sell investments in this country. Millions upon millions of

dollars are spent to support this huge regulatory apparatus. Notwithstanding all of that, when it comes down to the investment of your money, there is only one person who can decide how to do that, and that person is you. It’s ultimately up to you to make sure that you don’t get suckered. How do you do that?

First, if the person pitching an investment to you makes extravagant promises about the rate of return on the investment (in today’s market anything over a few percentage points should be considered extravagant), it’s a con. Stay away from it.

Second, if the person pitching the investment is not able to explain the investment to you in a way that you can understand, it’s probably a scam. Scammers like to impress their marks with the use of long and hard to understand terminology. If you don’t understand the investment, don’t make it.

Third, never ever allow your investment decision to be influenced by the personality of the person who is pitching the investment. Con men are almost always likable persons. You cannot (and should not) always trust that “nice young man.”

Fourth, never allow yourself to be rushed into a decision. If you’re told that you have to make a quick decision or the opportunity will go



P.T. Barnum, the great showman of the 19th century, is rumored to have said that “There’s a sucker born every minute.”

away, LET IT GO AWAY! invest. It’s a con.

Fifth, never make an investment decision without thoroughly investigating it yourself. Get on the Internet and Google it. Talk to your trusted friends and family members about it. Better yet, if you know someone with knowledge about finance, talk to them about it. Educate yourself before you

Finally, always keep your guard up. Don’t assume that the person pitching the investment has your best interest at heart or that he’s a trustworthy person. It’s a good bet that he doesn’t and he’s not. Don’t let yourself get suckered.



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The Delaware Department of Justice presents a free live Web Seminar with Jean Chatzky, award-winning journalist, best-selling author and sought-after motivational speaker, who has been working with people and their money for decades. Her experiences have inspired books on topics ranging from money to happiness. In her latest effort, Chatzky provides insights on how to thrive in a tough economic climate.

Join us on September 15, 2009 at 7:30 PM for this free hour-long interactive Web Seminar as Jean shares tips to help you save more money, safely invest the money you save and answers your financial questions.

Jean Chatzky is the financial editor for NBC's *Today*, a contributing editor for *More* magazine, a columnist for *The New York Daily News*, and a contributor to *The Oprah Winfrey Show*.

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Some information contained in this informational publication has been obtained from the North American Securities Administrators Association (NASAA) and the Financial Industry Regulatory Authority (FINRA).

